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SUBJECT: Iranian Reactions to Saudi Oil Project

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Central Intelligence Agency


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## DIRECTORATE OF INTELLIGENCE

25 April 1986

## Iranian Reactions to Saudi Oil Policy

Summary

Iran views Saudi Arabia's current oil policies as a threat to the Iranian economy, its war effort, and potentially, the stability of the regime. Tehran hopes to persuade Riyadh to change its stance but appears prepared to use force if political pressure fails and if Tehran were faced with prolonged economic decline coupled with internal unrest. More forceful Iranian actions probably would consist initially of terrorism, sabotage, or assassinations--measures that would preserve a degree of plausible denial for Tehran. It may opt for a small-scale commando raid against Saudi facilities or launch a single surface-to-surface missile, hoping to frighten Riyadh into modifying its position. Fear of provoking Western intervention is likely to continue to deter Iran from using its own forces in a major attack on Saudi or Kuwaiti oil facilities. Only a major attack on critical Saudi oil systems could inflict sufficient damage to keep Gulf oil flows below pre-attack levels for an extended period and bring a sharp increase in prices and serious shortages in OECD countries.

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This paper was prepared by  Office  
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welcome and may be directed to the Chief, Persian Gulf Division

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[redacted]

Iranian leaders realize that a prolonged period of low oil prices will sharply increase popular disaffection with the regime, squeeze funding for the war, and might produce enough unrest to force them to reconsider the way they are prosecuting the conflict. Low oil prices will force the regime to make much deeper cuts in consumer and industrial imports this year--the regime already had to slash imports by one third in 1985. [redacted]

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While the Iranians almost certainly recognize that soft market conditions are playing a major role in driving oil prices down, they also apparently believe that the Saudis have increased production largely in an effort to squeeze Iran. Iran has tried since January to pressure the Saudis to change their oil policy and has [redacted] warned Riyadh that continued intransigence would risk Iranian military retaliation. [redacted]

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If Iran is not able to secure Saudi cooperation to shore up oil prices, and if low oil prices threaten its ability to prosecute the war with Iraq, we believe Iran is prepared to make good on its threats to use force--although we have no evidence that Tehran has a timetable. Instead, Tehran would likely initiate a gradually escalating campaign of force to intimidate the Saudis, starting with indirect actions. A probable first step would be to step up attacks on--or start seizing--Saudi and Kuwaiti tankers. Iranian aircraft recently hit a Saudi tanker for the first time in two years. If this tactic fails to influence the Saudis, we expect Tehran to increase the pressure, possibly by sponsoring terrorism against Gulf state oil facilities or the assassination of low to mid-level Saudi or Kuwaiti officials. Iran might also attempt to disrupt the annual pilgrimage to Mecca this August. We continue to doubt the Iranians would conduct a major attack on Saudi or Kuwaiti oil facilities for fear of provoking Western intervention. [redacted]

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Other possible Iranian tactics include small-scale raids or sabotage operations directly by Iranian commandos against Saudi, Kuwaiti or Bahraini oil facilities. Among the most accessible targets for such operations are Kuwait's Mina al Ahmadi onshore crude export terminal and offshore sea island; the Ras al Khafji and Mina Saud export terminals, which handle oil from the Neutral Zone that is marketed on Iraq's behalf; and the UAE's offshore processing and export installations on Das, Fateh, and Zirku islands and its onshore facility at Jabal az Zannah. Iran might also calculate that the deployment of Scud or Frog missiles within range of oil facilities or the launch of one missile and the threat of further attacks would frighten the Saudis into changing their policy. [redacted]

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### Military Capabilities and Training

The Iranians appear to have stepped up their efforts to train forces for commando and sabotage operations since the beginning of the year.

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The coastal oil facilities of Saudi Arabia and the other Persian Gulf states are all within the 300 kilometer range of Scud missiles fired from the Iranian mainland. Because of the Scud's poor accuracy and small warhead, however, the Iranians would have to fire many rockets at such targets to increase their chances of hitting vital equipment. Frog missiles launched from southwestern Iran have the range to hit some oil fields in Kuwait.

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### Vulnerability of Oil Installations

An attack such as a commando raid or the launch of one or two Scud missiles probably would not curtail Gulf oil supplies for any significant period of time. Damage from such an operation would be limited and surplus capacity would be available to offset any loss. The impact on the psychology of the oil market, however, could bring the current price slide to an abrupt halt by creating new uncertainties about future oil supplies.

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To cause significant, longterm disruption, Tehran would have to use virtually all of its air, naval, and terrorist resources to blockade or mine the Strait or systematically destroy critical oil installations throughout the Gulf. If Iran succeeded in inflicting damage to critical oil systems--particularly in Saudi Arabia--we believe Gulf oil flows might not return to pre-attack levels for up to six months. With most surplus capacity now in the Gulf, loss of a significant portion of production for six months or so would lead to a sharp run-up in world oil prices and serious oil shortages in OECD countries.

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